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Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Liuhto, K. (2015). Motivations of Russian firms to invest abroad: how do sanctions affect Russia's outward foreign direct investment? *Baltic Region*, 4, 4-19. <https://doi.org/10.5922/2079-8555-2015-4-1>

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ECONOMICS



MOTIVATIONS OF RUSSIAN FIRMS TO INVEST ABROAD: HOW DO SANCTIONS AFFECT RUSSIA'S OUTWARD FOREIGN DIRECT INVESTMENT?

K. Liuhto*



In 2013, Russia's outward foreign direct investment (OFDI) soared and the OFDI stock exceeded \$ 500 billion. However, a year later, Russia's OFDI dropped by nearly 15 per cent. Rapid upward and downward swings make it necessary to analyze the motivation of Russian firms to invest abroad as well as to assess the impact of sanctions on Russian OFDI.

The author points out that a significant part of Russia's outward FDI stock is accounted for by the operations of Russian corporations in their home market. It is concluded that although Western sanctions target a relatively small number of Russian citizens and companies, they nevertheless affect some of Russia's key people, largest banks, and hydrocarbon producers. Therefore, their direct impact could be substantial. Alongside the direct impact, one should consider their indirect impact, such as the tumbling rouble exchange rate and Russian banks' increasing interest rates, which decrease Russian firms' capability to invest abroad. Moreover, a less amicable political atmosphere in the West may push some Russian corporations out of the Western markets and diminish the enthusiasm of new ones to enter them. Today, Russia's counter-sanctions do not directly restrict the country's OFDI, but Russian state-owned enterprises may reach a decision to hold foreign investments to support Russia's sanction policy.

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Submitted on August 19, 2015.

doi: 10.5922/2079-8555-2015-4-1

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Key words: motivations for foreign direct investment, Dunning's taxonomy on FDI motivations, Russia's outward foreign direct investment, impact of sanctions on EU-Russia economic relations

1. Russia's transformation into the world's 6th largest OFDI country in 2014¹

Completion of privatization in the major sectors of Russian economy and industrial restructuring in the 1990s became the prerequisites that enabled Russian corporate expansion abroad. The improved financial state of Russian companies and the accumulation of wealth² were two other preconditions for their internationalization.

The beginning of Russia's outward investment boom coincided with skyrocketing oil prices. In January 1999, the price of oil was slightly more than USD10 per barrel, whereas by June 2008 it had already exceeded USD130 [14]. Simultaneously, Russia's oil production jumped from 6.2 million to nearly 10.8 million barrels a day [3; 4]. The oil boom and the spillover effect it had on the Russian economy enabled Russian oil companies to invest abroad. Moreover, several corporations in other natural resource-based industries witnessed the same phenomenon due to the rising prices of raw materials [51].

Before the second half of the 1990s, a Russian firm abroad was a rarity and capital flight dominated capital exports from Russia. In the mid-1990s, Russia was of little global consequence in terms of its OFDI³. In 1995, Russia's OFDI stock totaled a mere USD three billion. From 1995 to 2013, Russia's OFDI stock was steadily growing only to drop by almost 15 % in 2014. By the end of 2014, Russia's accumulated OFDI was over USD400 billion, meaning that Russia's OFDI stock saw an increase rate of over 100-fold, and its share in the world OFDI stock grew by more than 10 times between 1995 and 2014 (Table 1).

Russia's outward and inward FDI stock were growing hand in hand. This was largely due to 'the Cyprus capital boomerang' i.e. the capital round tripping from Russia to Cyprus and back to Russia. Here, one should note that the value of Russian investments to Cyprus (\$ 161 bil-

¹ Russia ranked the 6th in terms of OFDI flow in 2014, but its global position was considerably lower (17th) in terms of accumulated OFDI stock [45]. When one analyzes the size of the Russian OFDI stock, one needs to remember that outbound investments from Russia began in 1991, i.e. after the disintegration of the USSR.

² In the beginning of 2015, the combined net worth of 86 official billionaires of Russia was approximately \$ 335 billion [21]. To compare, the Russian GDP in 2014 amounted to \$ 1,857 billion [7].

³ "FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used. Inward stocks at a given point in time refer to all direct investments by non-residents in the reporting economy; outward stocks are the investments of the reporting economy abroad." [37]

lion) was almost equal to the amount of Cypriot investments in Russia (\$ 194 billion) as of the end of 2013 [6].

This implies that several Russian corporations are using Cyprus as their bank or safety box. It is impossible to state exactly what the precise amount of genuine outward FDI in Russian OFDI stock is. However, if one excludes Cyprus and tax havens from the Russian OFDI stock, one may conclude that less than a half of the Russian OFDI could be characterized as genuine OFDI.

Table 1

The development of Russia's outward foreign direct investment

	1995	2000	2005	2010	2013	2014
Russia's outward FDI stock (USD million)	3,015	20,141	120,417	433,655	501,202	431,865
Russia's share in the global outward FDI stock (%)	0.11	0.25	1.13	2.12	1.90	1.67
Ratio between Russia's outward and inward FDI stock (%) *	55.17	62.54	90.89	102.48	87.07	114.09
Cyprus' share in Russia's outward FDI stock (%)	no data available	no data available	no data available	42.06	33.67	no data available
Cyprus' share in Russia's inward FDI stock (%)	no data available	no data available	no data available	36.64	34.18	no data available
Ratio between Russia's accumulated investments to and from Cyprus (%)	no data available	no data available	no data available	85.92	83.38	no data available

* Figure exceeding 100 means that Russia's OFDI stock exceeds the country's inward FDI stock.

Sources: [6; 45].

Although the Russian OFDI had been growing fast, the proportion of the Russian investments in the inbound FDI stock of the EU remained marginal (less than 1 % in 2013 [15]). On the other hand, in some EU member countries, such as Austria, the Baltic States and Bulgaria, the Russian share approaches 5 %. Cyprus clearly tops this list with the Russian share exceeding 10 % (Table 2).

Russia's investment stake in the USA, around 0.2 %, is even smaller than in the EU [38]. China is no exception, i. e. Russia's investment in China does not exceed one percent of China's total inbound FDI.

Table 2

**Russia's share of inward FDI stock of the EU member states as
of the end of 2013, unless indicated otherwise**

	Total inward FDI stock of host country (millions)	Total Russian FDI stock in host country (millions)	Russia's share (%)
Austria	EUR 220,108	EUR 10,436	4.7
Belgium (2012)	EUR 597,984	No host data available	–
Bulgaria	EUR 38,157	EUR 1,818	4.8
Croatia	EUR 27,020	EUR 240	0.9
Cyprus (2012)	EUR 15,952	EUR 2,198	13.8
Czech Republic	EUR 103,455	EUR 311	0.3
Denmark (2012)	DKK 788,200	DKK 3,700	0.5
Estonia	EUR 15,882	EUR 843	5.3
Finland	EUR 73,459	EUR 842	1.1
France	EUR 531,800	EUR 600	0.1
Germany (2012)	EUR 792,763	EUR 3,226	0.4
Greece	EUR 20,115	No host data available	–
Hungary (2012)	EUR 78,488	EUR 27	0.0
Ireland	EUR 257,513	No host data available	–
Italy	EUR 293,000	No host data available	–
Latvia	EUR 11,472	EUR 581	5.1
Lithuania	LTL 42,790	LTL 1,611	3.8
Luxembourg (2011)	EUR 81,724	No host data available	–
Malta (2012)	EUR 12,356	EUR 13	0.1
Netherlands	EUR 497,677	No host data available	–
Poland (2012)	PLN 728,749	PLN 2,092	0.3
Portugal	EUR 93,168	EUR 62	0.1
Romania (2012)	EUR 59,126	EUR 79	0.1
Slovakia	EUR 42,660	No host data available	–
Slovenia	EUR 10,729	EUR 49	0.5
Spain	EUR 519,175	EUR 350	0.1
Sweden (2012)	SEK 2 360,000	No host data available	–
UK	GBP 936,452	GBP 1,218	0.1

EUR 1 = DKK 7.45; GBP 0.80; LTL 3.45; PLN 4.21; SEK 9.20; USD 1.27 (European Central Bank 15.10.2014).

Source: [32, p. 223—224].

Compared to the EU, the USA and China, the importance of the Russian OFDI in some CIS countries is gargantuan. Russia covers, for instance, the bulk of the Tajik inward FDI stock and some 40—60 % of the Belarusian and Uzbek inward FDI stock (fig. 1).

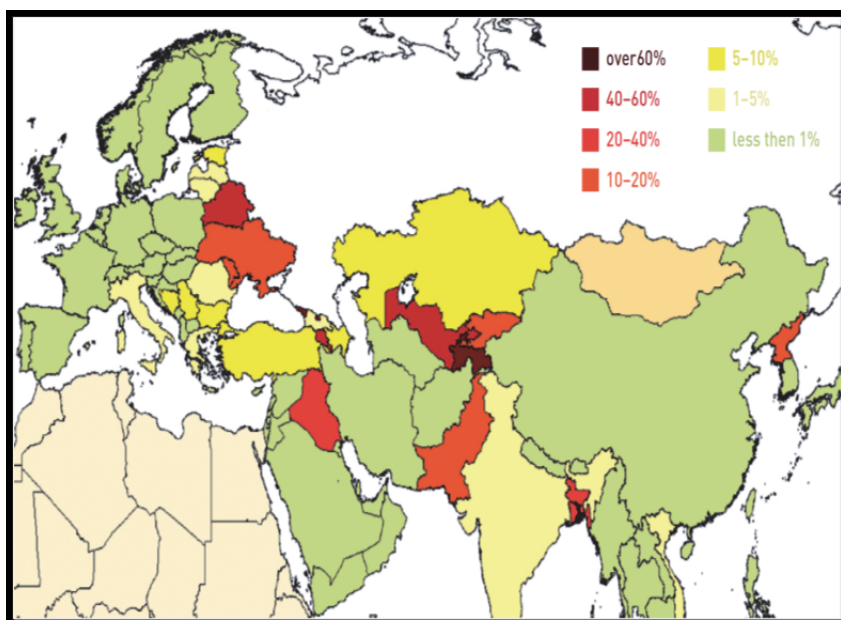


Fig. 1. Russia's share in the inward FDI stock of the recipient country as of the end of 2013

Note: There are some notable statistical differences concerning Russia's share in the EU member states between this map and Table 2. One can take Cyprus as an example. Some discrepancies could also be observed in some former Soviet republics, such as Ukraine. According to the Ukrainian statistical authorities, Russia's share in Ukraine's inward FDI stock was 7.4 % in the end of 2013 [44].

Source: [16, p. 26].

What was the role of the Russian government in transforming Russia from an OFDI outsider to the world's sixth largest capital exporter with an FDI outflow amounting to USD56 billion in 2014? How should Western governments treat Russian corporations now, when relations between Russia and the West are at their coldest since the collapse of the USSR? How will the sanctions affect the Russian investment abroad? These and many other questions currently puzzle everybody, from researchers to decision-makers in business and politics.

2. Objective and accomplishment of the research

This article aims to pull aside the curtain of mystery shrouding Russian OFDI and discuss possible motives, which have pushed or attracted Russian corporations overseas. In addition, this article analyzes the im-

part of the Western sanctions and Russia's counter-sanctions on the Russian OFDI.

I started to follow the Russian OFDI already in the second half of the 1990s, when the news of foreign acquisitions by Russian corporations became more frequent in the Western media. For nearly two decades, I have been systematically reading all that the Western media and academics have written about Russian OFDI. More recently, my former colleague and I analyzed about a hundred scientific studies related to the Russian OFDI [32].

While all these studies might have formed my perspective on the Russian OFDI, I will only refer to some of them in this article. Therefore, a reader interested in the topic is advised to get acquainted with the aforementioned article, which offers perhaps the most comprehensive literature review of the Russian OFDI conducted so far.

In addition to the systematic monitoring of the written material, during the past 20 years I have had a chance to talk with numerous Russian and Western politicians, policy-makers, authorities, businessmen and scholars, whose views on the Russian OFDI compliment the literature analysis. I do not refer to these discussions, since they have been private or even confidential in nature.

This article is a 'travelogue' of my 20-year journey as a researcher. As with any travelogue, it is subjective and somewhat biased, but even with the possible deficiencies, this article may expand the prevailing understanding of motivations behind the Russian OFDI. I hope that this article encourages researchers to intensify their empirical research on Russian OFDI, since, by doing so, they may challenge the common sense conclusions and uncover and demolish prevailing myths.

In order to comprehend the motivations behind the Russian OFDI better, I have used the dominating theory in the field as the foundation of this article.

3. Theoretical framework for a firm's motivation to invest abroad

The most cited typology of FDI motivations is Dunning's taxonomy [11]. The taxonomy is based on Dunning's OLI paradigm (1977) that explains why (Ownership advantage) decides to internationalize, where (Location advantage) it is more likely to invest abroad, and how (Internalization advantage) a firm decides to become a multinational. Dunning's taxonomy consists of four main motivations:

(1) *Resource seeking*: a firm invests abroad to acquire resources that are not available at the home market or that are available at a lower cost. As an example, one can name land, labor, capital and natural resources.

(2) *Market seeking*: a firm invests abroad to find new buyers for its goods and services. Occasionally, a firm follows its growing export flows, clients or suppliers to foreign markets, i.e. "*follow your customers*" strategy. Sometimes, a physical presence abroad is required to convince a firm's current customers and discourage competitors.

(3) *Efficiency seeking*: a firm invests abroad to “take advantage of differences in the availability and costs of traditional factor endowments in different countries” or it goes abroad to “take advantage of the economies of scale and scope and of differences in consumer tastes and supply capabilities” [11, p. 60].

(4) *Strategic asset seeking*: a firm invests abroad to acquire a new technological base rather than merely exploits its existing technology.

The majority of international business (IB) studies use Dunning’s OLI paradigm rather than aims at challenging, modifying or criticizing it. The main criticism of the eclectic paradigm in the literature are: 1) its failure to account for the role of managers; 2) its inability to handle the dynamic evolution of the multinational companies; 3) an unclear specification of what can serve as measures of the major constructs and how these constructs are related; and 4) a limitation in dealing with the interaction between the policy environment and the firm [9].

A year later, Eden [12, p. 277] proposed the expansion of the OLI paradigm with ‘when’ and ‘what’ questions. She wrote: “When I was in kindergarten, my teacher taught me that the way to learn about a new object was to ask five basic questions: Who or what, when, where, why and how? I have always believed that the OLI (or eclectic) paradigm was about a subset of those questions. ... My thesis is that OLI should best be seen as a way of looking at the phenomenon of multinational enterprises and their activities. OLI addresses three of the five kindergarten questions — the why, where and how of MNE activities.”

Following Eden’s idea, one could ask whether the internationalization of a firm should be analyzed via three traditional questions: ‘why’ (motivation), ‘where’ (location), ‘how’ (a mode of internationalization), and two new ones: ‘when’ (appropriate timing to internationalize) and ‘who or what’ (readiness to internationalize). A firm’s management must consider all these questions simultaneously and come to a decision, which it perceives the best. Thus, the decision to internationalize is a compromise, as a firm’s management has to answer these questions either consciously or unconsciously.

Franco et al. [23] criticized Dunning’s FDI motivation taxonomy as overlapping, and therefore they propose a modified motivation-based classification of FDI. Their classification consists of three parts: 1) resource seeking, 2) market seeking and 3) non-marketable asset seeking. The interpretation of Franco et al. concerning resource seeking is close to Dunning’s taxonomy, but it differs in one crucial point. Franco and his associates treat technological and managerial capabilities not as resources, but as non-marketable assets. The second classification is very close to Dunning as well, but Franco et al. wish to emphasize that foreign market to be exploited is not necessarily the market where FDI takes place. In other words, the FDI can be either in a direct form or in an indirect one. The third classification also resembles Dunning’s taxonomy. However, it stresses the acquisition of assets, which are not directly transferable through market transactions.

Such assets can only be exploited inside the country or in the local context where they are created. Even if Franco et al. notice that Dunning's taxonomy contains overlapping, the authors are not able to produce a clear-cut classification on FDI motivations; instead they merely modify Dunning's taxonomy.

When analyzing Dunning's contribution to the IB studies, one should not forget that Dunning developed his OLI paradigm over time. Researchers who use Dunning's OLI paradigm as a framework for their own endeavors may use completely different versions, increasing the confusion [13]. Therefore, Narula [36], Dunning's former student, proposes the simplification of the OLI paradigm instead of expanding it.

To sum up the theoretical discussion above: despite possible shortcomings in Dunning's taxonomy, it dominates the IB literature for a good reason, i.e. it has an extremely high explanatory power, and therefore Dunning's taxonomy [11] was chosen as the theoretical framework of this article as well.

4. Most frequent motivations of Russian firms to invest abroad

Even if the motivations and internationalization strategies of Russian firms may vary depending on place, time or industry [25; 47; 22], I have tried to summarize 10 most frequent motives of Russian companies to invest abroad:

(1) *OFDI as a personal 'bank'*: even if Russia does not enforce restrictions on capital exports any longer, it is more convenient for Russian corporations to execute their financial operations when they retain part of their finance abroad, which they may also use as collateral to get foreign loans, i.e. raising capital. A part of the Russian OFDI has been conducted to finance their operation in the home market, which explains partially massive capital round-tripping⁴;

(2) *Market entry and expansion*: the number of the Russian firms, that carry out significant production outside Russia, is surprisingly small compared to the total amount of capital (over \$ 400 billion) moved from Russia abroad. This implicitly implies that many of Russian units abroad act as sales and marketing units. With these units, Russian firms move closer to the final consumer, and hence they may avoid the unnecessary use of middlemen [48]. Russian banks in particular have followed their existing customers in their internationalization process [31];

(3) *Raising profit margins*: profit margins are higher at the end of the value chain, and therefore several Russian firms have moved along the value chain and transformed themselves from an exporter of raw materials into a seller of final goods;

⁴ Bulatov [5] observed this phenomenon, i.e. Russian firms' motive to keep some of their assets outside Russia in order to invest these funds in Russia and elsewhere, already in the mid-1990s.

(4) *Tax planning and minimization of customs fees*: Russian companies tend to keep their foreign assets in tax havens and low tax countries, which helps them in their legal tax planning. Some Russian firms use transfer pricing and other corporate transfers to minimize customs fees and duties. Sometimes, production is moved outside of Russia to avoid the country's own export duties, or alternatively import duties of the recipient country;

(5) *Risk aversion*: some private Russian firms do not keep all their assets in Russia due to the perceived political risk of their home market. Russian businessmen have learned the golden rule of international business and refrain from keeping all their eggs in one basket;

(6) *Securing a company's logistical chain*: a few Russian firms have acquired logistical units abroad to secure the exports of their commodities from the domestic production site to an end consumer abroad, since being too dependent on any service provider in logistics may create unpleasant surprises in terms of logistical flows;

(7) *Acquisition of advanced Western technology*: a fairly small number of Russian knowledge-intensive firms have invested abroad to acquire advanced foreign technology [for a more detailed discussion on the theme, see 18; 19; 39; 22];

(8) *Serving Russia's foreign policy objectives*: although there is no explicit evidence on serving Russia's foreign policy, it seems highly likely that some Russian investment projects in less developed countries in particular may have been conducted to support Russian foreign policy objectives rather than to execute business goals only⁵;

(9) *Acquisition of real estate or an establishment of a firm abroad in order to get a "Golden Visa"*: empirical research has shown that motives of Russian SMEs to invest abroad can go beyond conventional business rationality and one may find rather personal reasons behind investment decisions, such as a goal to migrate to a host country, a desire to acquire a long-term residence permit abroad or even to get a foreign citizenship [50]. A surprisingly large number of Russian citizens have acquired real estate or established a firm in an EU country to receive a long-term residence permit [29; 43; 24; 26];

⁵ For example, one cannot completely exclude the possibility that Russia's foreign policy would have played a certain role in Lukoil's decision to invest in war-torn Iraq in 2009 [34]. Liuhto and Vahtra have tried to build a typology explaining the relationship between the Russian OFDI and Russia's government policies [33]. Here, one needs to stress that the impact of the Russian government on the Russian OFDI is not unambiguous [40]. For example, Fortescue and Hanson concluded that political motives do not play an important role in the outward expansion of the Russian steel companies [22]. It is important to notice that the steel industry is virtually entirely privately owned. In the further studies, it would be necessary to study the relationship between the internationalization motives of the Russian state-owned corporations and the Russian foreign policy, since by definition the state-controlled companies implement the objectives of the state and when these companies internationalize they become a part of the country's foreign policy tool box.

(10) *A necessity driven by increasing global competition*: the Russian market is less than three percent of the global economy, and hence several Russian major companies have noticed that in order to survive in global competition, they have to expand abroad, i.e. the constraints of the domestic market push a firm to internationalize.

When one studies motives of Russian capital exports, one should not forget Russia's indirect investments via Cyprus and other countries to their final destination [41; 28]. The majority of indirect investment from Russia can be explained by the fact that Russian companies keep their assets in tax havens and low tax countries and use them to finance their operations either in Russia or in other markets. In a relatively small number of cases, however, the transit countries (front companies) have been used to disguise the Russian origin in order to avoid negative reaction from host country governments, since some recipient countries have been reluctant to allow Russian companies to enter industries that they consider strategic for the functioning of their economy. One may take some acquisition processes of some European energy companies as an example [35; 42].

According to media reports, the use of front companies has sometimes been linked with Russia's foreign intelligence [20; 46]. However, these front companies should not be confused with true OFDI, as most of them do not meet the definition of FDI and they have not been conducted to carry out business abroad. Similarly, money laundering is not linked with legal business [54], and therefore its connection with the Russian OFDI is not dealt with in this article. On the basis of the available evidence, the author is unable to conclude what the relationship between Russia's organized crime and the Russian OFDI is [52; 2].

5. Research findings through the prism of Dunning's taxonomy

The amount of Russian OFDI has grown extremely fast; over 100 times since the year 1995 and over 20 times since the beginning of the new millennium. An extremely low starting point in 1995 and the growth of natural resource prices in this millennium are perhaps two most fundamental reasons behind such a rapid growth in the Russian OFDI.

Capital round-tripping is closely linked with the Russian OFDI. The following two statistical observations support this conclusion: 1) Russia's outward FDI stock has been growing hand in hand with the country's inward FDI stock; and 2) a small and less prosperous Cyprus is Russia's largest outward FDI target and the country's largest inward FDI source. Capital round-tripping occurs for various reasons; some Russian firms use it to avoid taxes or potential risks on the home market, whereas others utilize it to raise less expensive loans from Western financial institutions to finance own operations at the home market.

Russia is by far the world's largest country in terms of territory (almost double the size of the USA and approximately four times larger than the EU) and it has been blessed with a giant natural resource base. The country also

possesses qualified, relatively large and, by Western standards, inexpensive labor force. Therefore, it is logical that *resource seeking* does not dominate in the internationalization of Russian firms, though some Russian oil and metal companies have acquired oil fields and mines abroad, particularly in less developed countries. However, there is one major exception to the rule, and that is capital. To put it differently, an access to less expensive finance offered by the Western banks is one of the underlying motivations of the Russian corporations to open their units abroad and take this money back to their country.

Russian firms produce relatively little overseas, when one takes into account the total amount of the Russian OFDI (over \$ 400 billion). This is not a surprise since the vast domestic natural resource base forms the core of Russian firms' global competitiveness. Even if foreign production is a less typical occurrence, foreign sales and marketing activities are substantial. Therefore, I am inclined to conclude that *market seeking* (incl. serving better the existing clientele and finding new consumers) and *efficiency seeking* (incl. raising profit margins, minimizing transaction costs and securing efficient flow of goods to consumers) dominate in the internationalization of Russian firms. *Strategic asset seeking* has so far remained modest, though some Russian knowledge-intensive firms have already purchased some Western companies to acquire modern technology, which is not available in the market otherwise.

Russia is the world's largest energy producer and exporter, and therefore it is understandable that the country's foreign policy may sometimes be detected behind some OFDI. In this respect, Russia does not seem to differ significantly from major global powers. Risk aversion related to perceived political risks of Russia is a less traditional FDI motive. However, it is difficult to assess the impact of risk aversion, since there are no reliable empirical studies on the topic. Outward investment linked to obtaining residence permits abroad is another extraordinary motivation for foreign investment. Although this phenomenon has been growing fast, one should not exaggerate its role in Russia's overall OFDI stock. Furthermore, one should keep in mind that Russians do not top the residence permit statistics of the EU [17].

These three home country factors related to the Russian OFDI suggest a modest modification or a slight expansion of Dunning's taxonomy on FDI motivations⁶. Should one exclude these three peculiar FDI motivations, one cannot make a major distinction between the motivations of a Russian firm to invest abroad and those of the Western counterpart, and therefore one may conclude that a Russian outward investor has during the past 20 years become rather ordinary in the eyes of a Western IB scholar (Table 3).

⁶ Kalman Kalotay, Economic Affairs Officer at the UNCTAD, has made a fundamental discovery related to the applicability on Dunning's OLI paradigm on the Russian OFDI. Kalotay [27, p. 53] concludes: "*the eclectic paradigm could be applied to Russian multinationals with its extension to home-country factors. Other theories, however, would require more radical rethinking in future research.*"

Table 3

Dunning's taxonomy on FDI motivation and the preliminary findings on the Russian OFDI

Taxonomy on FDI motivations	Findings of the Russian OFDI
Resource seeking	OFDI as a personal bank (1)
Market seeking	Market entry and expansion (2) — a pull factor A necessity driven by increasing global competition (10) — a push factor
Efficiency seeking	Raising profit margins (3) Tax planning and minimization of customs fees (4) Securing a company's logistical chain (6)
Strategic asset seeking	Acquisition of advanced Western technology (7)
Home-country factors related to Russia	Risk aversion (5) Serving Russia's foreign policy objectives (8) Acquisition of real estate or an establishment of a firm abroad in order to get a "Golden Visa" (9)

6. The impact of the sanctions on the Russian OFDI

Russia's sanctions do not target the Russian OFDI yet, but in practice Russia's state-owned enterprises in particular have to take into account the country's sanction policy. This does not necessarily mean that the Russian government would not allow them to invest abroad, but rather the sanction era puts more responsibility on the shoulders of the state-owned companies and the country's largest private corporations to inform more about their foreign investment plans to the Russian government.

Western sanctions, in turn, are targeted at roughly 100 Russian citizens and a few dozen firms⁷. Although the total number of those sanctioned is not that great, the restrictions apply to some of Russia's key personalities, Russia's largest oil and gas producers (such as Rosneft, Lukoil, Gazprom and Novatek), and some major banks (such as Sberbank, Gazprombank and Vneshekonombank), so their direct impact is notable. The indirect impact of the sanctions, such as a deteriorating ruble exchange rate and increasing interest rates, could be even more significant than the direct one, since the sanctions weaken all Russian firms' capability to invest abroad. Moreover, the political and economic business environment of the EU and the USA

⁷ The Western sanctions have been gradually introduced since 17th of March 2014, i.e. one day after the Crimean referendum. The Western sanctions towards Russia are not a uniform set of restrictions, since the EU, the USA and some other countries have introduced their own sanctions and the sanctions are not targeted exactly to the same individuals and firms. A few days after the first round of the Western sanctions, Russia started to introduce its counter-sanctions. So far, Russia has banned an entry of some 100 European and US citizens into Russia and stopped the imports of some agricultural produce and foodstuffs from the countries, which have imposed their sanctions on Russia.

may distract Russian corporations from the Western markets. As a fresh example, one may take Gazprom, one of Russia's largest outward investors [30]. Gazprom Germania announced at the end of July 2015 that the company might start to restructure its foreign assets due to "changes in economic and political conditions" [49].

Even with Gazprom threatening to diminish its presence in the Western market, there is evidence that some other state-run companies are still eager to invest in the West. For example, Arctech Helsinki Shipyard became at the end of 2014 fully-owned by Russian United Shipbuilding Corporation [1] and Rosatom was at the time of writing this article willing to become a major owner in a new Finnish nuclear power plant with a 34 %-share [53].

To conclude, the picture on the Russian OFDI is not painted with dark colors only. However, one should not forget that Russia's export has dropped by approximately 30 % in January-May 2015 [8]. As the FDI outflows tend to follow the export flows, the future of the Russian OFDI in the West is shadowed with certain uncertainty.

As the companies and their cross-border investment build bridges among the nations, one should keep supporting non-political investments despite the political ice age between Russian and the West. As small and medium-sized enterprises (SMEs) are non-political actors, the European Commission and the Russian Government should, despite the prevailing sanctions, do their best to keep the business environment receptive to inward investments and support the internationalization of their SMEs.

Kaliningrad, the Russian exclave surrounded by the EU, could become a common pilot zone for the EU-Russia SME cooperation, i. e. the EU and the Russian Federation could design a joint program to promote the internationalization of the SMEs. Common acts of goodwill are required to stop the vicious circle of the sanctions. We have to understand that the contemporary path leads to a dead-end in the literal sense of the word. Our leaders should act quickly in search for a commonly accepted political resolution to the Ukrainian crisis, since the sand in our hourglass runs faster than many would have imagined.

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